

## COUNCIL REFERRAL FORM

Name of Councilmember requesting referral: Mayor Gilmore

Date of submission to City Clerk (must be submitted before 5:00 p.m. on the Monday before the Council meeting requested): 6/20/11

Council Meeting date: 6/28/11

Brief description of the subject to be printed on the agenda, sufficient to inform the City Council and public of the nature of the referral:

Discuss and consider taking a position on the Audit Legislation (SB 186, 449; AB 187, 229, 253). These bills should be amended to conform with particular elements of the League of California Cities Audit Principles, as follows:

1. Oppose unfunded mandates (make explicit in the legislation that local governments won't be charged for the State audits)
2. Require audit standards: audits by the State Controller or the State Auditor should be conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (GAGAS)
3. If the State Controller issues new accounting procedures and/or new auditing standards, these should be voluntary, rather than mandatory, given that both the local governments and the CPA firms who perform their financial statements audits already must comply with GAGAS and other federal standards.
4. Amending AB 229 to clarify that it applies to the CPA firms, not the local auditors, as per attached.

## **League of California Cities: Audit Principles**

### **Overarching Principles:**

- Given the State already has substantial authority to examine local government financial practices, and recognizes the significant resources required by auditors and local governments to complete audits, additional authority should only be granted to a State agency when there are documented insufficiencies in its existing authority.
- Governmental financial audits and performance audits ensure financial integrity and promote efficient, effective and accountable local government.
- Transparent, accurate financial and performance information is necessary for citizens to have confidence that their interests are being served, and for decision makers to be accountable for ensuring that public funds are spent appropriately and effectively.
- Public trust is inspired when auditors perform their work with independence, objectivity and integrity, remaining free from personal, external and organizational impairments to that independence, both in fact and in appearance.
- Public confidence in government is maintained and strengthened when financial and performance information is collected, managed and reported in accordance with nationally recognized professional accounting and auditing standards.

### **Specific Guidelines:**

- Local governments should follow Generally Accepted Accounting Principles (GAAP) for state and local governments established by the Governmental Accounting Standards Board (GASB). Financial audits should be conducted in accordance with Generally Accepted Auditing Standards (GAAS), issued by the American Institute of CPAs (AICPA); financial and performance audits should be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) (“the Yellow Book”), issued by the Comptroller General of the United States.
- The need for additional State oversight is minimized when local government financial accounting and auditing are consistent with these standards. Within these standards, local governments may design financial management and reporting systems that are flexible enough to meet unique local needs and requirements.
- State investigation, review, or audit of local agencies should be undertaken only after the State meets clear and convincing criteria, such as documented evidence of material weaknesses in financial controls. Any oversight conducted should not duplicate reviews already required or completed, such as the federal Single Audit, which was instituted to avoid duplicative audit work by federal and State agencies.
- When State oversight is warranted, it should be coordinated by one State agency to be efficient and minimize disruption. That agency should conduct all audits in full compliance with Government Audit Standards and should consult with appropriate stakeholders and local government audit organizations.



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April 20, 2011

California State Controller's Office  
John Chiang  
P.O. Box 942850  
Sacramento, California 94250-5872

**RE: SUGGESTED CHANGES FOR CLARIFICATION TO ASSEMBLY BILL 229**

Dear Controller Chiang,

First, we would like to express our appreciation for your commitment to increasing fiscal and performance oversight in California's cities. As independently elected city auditors, we believe that government auditing is critical to accountability and good governance.

After carefully reviewing Assembly Bill 229 (as amended on March 30, 2011), we respectfully offer a select number of technical changes that would greatly enhance this proposed legislation by providing increased clarity to certain sections of the bill.

Please find these suggested changes below (in *italics* and ~~striketrough~~):

12410.6. (a) The Controller shall develop a plan to review and report on *the annual financial audit reports and compliance audits of local agencies, including those reports prepared in compliance with the federal Single Audit Act of 1984 for local agencies.* The Controller, in consultation with the Department of Finance, and representatives of the League of California Cities, the California State Association of County Auditors, and the California Society of Certified Public Accountants, shall propose the content of, and adopt, an audit guide.

12410.7. (a) The Controller on an annual basis shall review and monitor the *annual financial audit, including those reports prepared in compliance with the federal Single Audit Act of 1984* ~~reports performed by independent auditors~~. The Controller shall determine whether the audit reports conform with the reporting provisions of government auditing standards and the audit guide and shall notify each local agency, and the auditor of each local agency regarding each determination.

12410.9. (a) The Controller may perform quality control reviews of audit working papers *of the annual financial audit reports, including those reports prepared in compliance with the federal Single Audit Act of 1984*, to determine whether audits are performed in conformity with government audit standards and the local agency audit guide. The Controller shall communicate the results of his or her reviews to the Department of Finance, the independent auditor, and the local agency for which the audit was performed, and shall review his or her findings with the independent auditor.

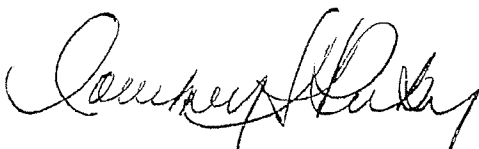
By implementing the aforementioned changes, the bill will benefit from the following enhancements:

- (a) Ensuring that the audit type to which this legislation is directed, as defined in Section 12410.5 (a), is reflected throughout the legislation, thus preventing any misinterpretation; and
- (b) Distinguishing between (1) performance audits performed by independent city auditor offices in cities, such as Oakland and Berkeley, and (2) the annual financial statement audits or single audits performed by commercial public accounting firms under contract to the cities.

As members of the Association of Local Government Auditors (ALGA), we encourage you to visit our website at [www.governmentauditors.org](http://www.governmentauditors.org) or to contact us at [ahogan@cityofberkeley.info](mailto:ahogan@cityofberkeley.info) or [cruby@oaklandnet.com](mailto:cruby@oaklandnet.com) for more information about city auditors and independent audit committees.

Please do not hesitate to contact either of us if you have any questions.

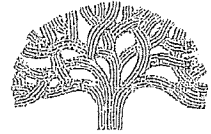
Sincerely,



COURTNEY A. RUBY, CPA, CFE  
Oakland City Auditor



ANN-MARIE HOGAN  
Berkeley City Auditor



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April 20, 2011

Office of Assemblymember Ricardo Lara  
State Capitol  
P.O. Box 942849  
Sacramento, CA 94249-0050

**RE: SUGGESTED CHANGES FOR CLARIFICATION TO ASSEMBLY BILL 229**

Dear Assemblymember Lara,

First, we would like to express our appreciation for your commitment to increasing fiscal and performance oversight in California's cities. As independently elected city auditors, we believe that government auditing is critical to accountability and good governance.

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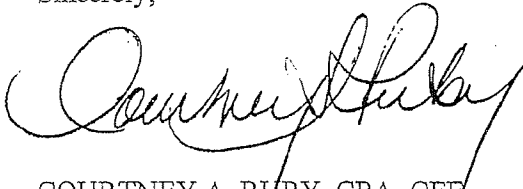
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Sincerely,



COURTNEY A. RUBY, CPA, CFE  
Oakland City Auditor



ANN-MARIE HOGAN  
Berkeley City Auditor